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AZ CORP COMMISSION
DOCKET CONTROL

April 16, 2010

The Honorable Gary Pierce
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Arizona Corporation Commission
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**Re: IBEW Arizona State Association (ACC Line Extension Workshops)
(Our File No.1692-006)
Docket No. E-00000J-10-0044**

In the matter of the Commission's inquiry and potential rulemaking regarding line extension policies of electric utilities, including but not limited to, alternative rate designs related to apportionment and rate recovery of costs of construction and installation of electric utility line extensions, the use of free footage and/or dollar allowances in line extension tariffs, the treatment of proceeds associated with line extensions as contributions in aid of construction (CIAC) and/or revenue, and the ability for third-party vendors to contract to install line extensions for electric utilities.

Dear Commissioner Pierce:

Pursuant to your request in your letter dated March 9, 2010, Local Unions 266, 387, 769 and 1116 of the International Brotherhood of Electrical Workers, AFL-CIO, CLC (collectively, "the IBEW Locals"), by and through undersigned counsel, hereby submit comments concerning the Notice of Inquiry ("NOI") in this docket.

The above IBEW Locals are labor organizations that serve as the collective bargaining representatives of thousands of electrical and other workers at several of Arizona's largest electric utilities, including Arizona Public Service Company ("APS"), Salt River Project, Tucson Electric Power, UniSource Energy Services, Trico Electric Cooperative, Graham County Electric Cooperative, and Navopache Electric Cooperative. In addition, IBEW Local 769 represents employees of a number of contractors who work for many of these same utilities - e.g., Argent Construction, Inc., Wilson Construction, Klondyke, NPL, Henkels & McCoy, and Sturgeon Electric.

Among other aspects of line extension policy, the workshops are set to raise and consider the use of third-party vendors in some fashion in the context of line extension work for such electric utilities. (See NOI, Questions 40 - 46). Having considered the matter thoroughly and having substantial expertise on which to draw, the IBEW Locals submit that the present, largely in-house approach to line extensions, while not without its flaws, is the overall approach that most effectively promotes, to the greatest extent practicable, "the convenience, comfort, and safety, and the preservation of the health, of the employees and patrons of [public service corporations]," while at the same time ensuring a significant measure of efficiency, economy, and cost containment for patrons.

Evidence offered at the recent hearings in the APS rate case (Docket No. E-01345A-08-0172) is both illustrative and instructive in this regard. APS' current policy "expressly permit[s] customers to hire contractors for trenching, conduit, and backfill necessary for the extension," as noted in the APS settlement agreement (p. 19), but reserves the province of electrical, particularly overhead, work related to such an extension for qualified, in-house personnel or select, utility-approved third-party contractors (Tr. 647:2-9; 665:19-24; 1376:1-19; 1380:14-21). The crews that construct most line extensions under this policy are comprised of skilled, knowledgeable, and experienced tradespeople, including journeyman linemen, who have served, at a minimum, a four-year apprenticeship consisting of at least 8,000 hours of on-the-job training (Tr. 633:14-18; 1371:1 - 1373:2; 1374:4-15; 1376:5-9).¹ These crews are trained to ensure that their work, including line extensions, conforms to all government- and utility-imposed standards (Tr. 1374:19 - 1375:4), and they are familiar with and conduct themselves in accordance with the utility's work and safety rules (Tr. 646:17 - 647:1). At present, an in-house crew working on a line extension site completes all phases of the project, including construction, inspection, and maintenance (Tr. 1376:1-4). Such crews perform such specialized work regularly and repeatedly (Tr. 1374:12-15).

Like their counterparts at other electric utilities represented by the IBEW Locals, APS crews have a proven track record of safe and reliable performance on line extension work, a track record that, when considered in combination with their skills, training, experience, and pride in their work, inspires confidence in those who supervise and those who work in such crews alike (Tr. 633:6 - 634:6; 1373:3-8; 1374:16-18). In fact, no witness at the APS hearing, including Mr. Froetscher, Vice President of Energy Delivery for APS, could recall any fatality or other serious accident occurring in the context of line extension work at APS (Tr. 634:7-18).

¹ In addition to constructing line extensions and performing other construction and maintenance tasks, these crews, which are located throughout the State of Arizona, also serve other important functions, including restoring power after storms and otherwise responding to emergencies throughout the utility's service territory (Tr. 1373:8-23; 1376:10 - 1377:18). Any policy that would divert significant work away from such crews could have the unforeseen consequence of threatening or limiting an electric utility's ability to respond during and after such emergency situations.

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Such is the current state of affairs concerning line extension construction at APS and at other major electric utilities in Arizona. There are those who nevertheless believe that the establishment of a third-party contractor option would result in unqualified gains to electric utility customers in terms of reduced prices and shorter construction times. The IBEW Locals respectfully suggest that it is far from clear that any third-party contractor option would yield such gains and that such gains, even if they were to materialize, would not be more than offset by safety and reliability issues that are likely to emerge. Moreover, it is far from clear that there exist an adequate number of third-party contractors who are ready, willing, and able to do the specialized, utility-specific electrical work necessary for line-extension projects in a manner that will ensure the safe and reliable provision of electricity throughout the service territory of all of the electric utilities. (In the case of APS, see in this regard Tr. 447:23 – 449:22; 595:12 – 596:11; 597:12-22; 1373:24 – 1374:3).

Furthermore, it is not at all apparent that such contractors could construct line extensions in a more timely manner or on a reduced-cost basis compared to the existing, in-house arrangement. Indeed, several witnesses in the APS hearing noted that even if a third-party contractor option generally existed and if it were exercised, APS personnel would still have to be involved and would still have to make a special trip to the project site, which could be anywhere in APS service territory, in order to inspect and possibly repair the work prior to the line being energized, likely resulting in additional expense and delay (Tr. 450:15 – 451:2; 699:23 – 700:5; 1375:5 – 1376:4). APS and its employees presently strive to ensure appropriately-staffed crews and to increase efficiency and reduce costs more generally (Tr. 633:19 – 634:6; 1368:17 – 1369:1; 1369:14 – 1370:14), and APS only currently charges line extension customers on a reasonable, “minimum cost to serve” basis, charging only for the cost of materials and labor connected with the extension and not for extra equipment installed for the purpose of system planning (Tr. 356:15 – 357:5; 666:4-20; 667:14 – 668:15; 704:23 – 705:2).

What is more, when comparing costs for the existing in-house arrangement with a hypothetical third-party contractor option, one must bear in mind the likely existence of hidden costs (*i.e.*, costs incurred or borne by utilities and, in turn, rate payers, but not captured in contractors’ prices), such as design, inspection, and repair costs, attending any policy allowing third-party contractors to work on line extensions. The IBEW Locals believe such hidden costs would be considerable.

One must also consider the experience of other jurisdictions which have adopted a third-party contractor option. Based on our inquiries, it appears that the adoption of such an option in California has led to a surge in complaints from developers regarding the burdensome and expensive process relating to the design and approval for projects performed by third-party contractors. In particular, it is our understanding that the back-and-forth nature of such discussions is often prolonged due to the adoption of this arrangement and that, as a result, California developers tend to think it is more trouble than it is worth to pursue such an option. The IBEW Locals submit that the adoption of such an option almost necessarily complicates and prolongs the process to some degree.

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In addition to creating issues surrounding inspections and any necessary remedial work, adopting a third-party contractor option would almost certainly lead to a host of other issues absent the establishment of an extensively-vetted, comprehensive framework and a set of rules to resolve and govern such matters. First, the essential qualifications for and the procedure for selecting such contractors would have to be prescribed, and standards would have to be put in place to ensure the compatibility of equipment and materials with existing facilities. Second, issues concerning the applicability of work and safety rules, including any utility-specific accident prevention manual, would have to be worked out. Furthermore, liability and insurance issues would have to be considered and addressed, including who would bear responsibility and liability for accidents, injuries, and fatalities among patrons and workers resulting from any substandard or unsafe work done by installing contractors. Finally, even with appropriate rules and procedures in place, to the extent electric utilities are less involved with planning and completing line extensions under a third-party contractor option, there exists the very real possibility that reliability issues, including interrupted or inconsistent service, may emerge, necessitating further upgrading of facilities.

As mentioned, the IBEW Locals do not believe the present policies for the utilities are without any flaws. The IBEW Locals would support modifications to promote price transparency, fairness, and consistency similar to those adopted as a part of the settlement agreement and order in the APS rate case. Where appropriate, such changes could include, among others, "[a] clarified definition of Local Facilities; [a] Schedule of Charges; [a] statement that quotes provided to customers will be itemized; and [p]rocedures for refunding amounts to customers when additional customers connect to the line extension." (Settlement Agreement, p. 18). Such modifications may properly be characterized as improvements to the present policy designed to address customer concerns regarding pricing and other issues.

We look forward to exploring these matters in the upcoming workshops.

Sincerely yours,



Jarrett J. Haskovec

JJH:dv

Enclosure

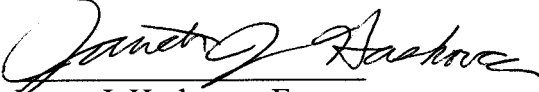
cc: Joel D. Bell
Pamela J. Cornelissens
Robert E. DeSpain
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CERTIFICATE OF SERVICE

ORIGINAL and thirteen (13) copies of the IBEW's Comments filed this 16th day of April, 2010, with:

Arizona Corporation Commission
Docket Control Center
1200 West Washington Street
Phoenix, Arizona 85007-2996


Jarrett J. Haskovec, Esq.

ATTACHMENT

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2

3 IN THE MATTER OF THE APPLICATION)
4 OF ARIZONA PUBLIC SERVICE)
5 COMPANY FOR A HEARING TO) DOCKET NO.
6 DETERMINE THE FAIR VALUE OF THE) E-01345A-08-0172
7 UTILITY PROPERTY OF THE COMPANY)
8 FOR RATEMAKING PURPOSES, TO FIX) PERMANENT
9 A JUST AND REASONABLE RATE OF)
10 RETURN THEREON, TO APPROVE RATE)
11 SCHEDULES DESIGNED TO DEVELOP)
12 SUCH RETURN.) EVIDENTIARY
13) HEARING

10 At: Phoenix, Arizona

11 Date: August 20, 2009

12 Filed: August 21, 2009

13 EXCERPTS OF REPORTERS' TRANSCRIPT OF PROCEEDINGS

14

15 KEVIN C. HIGGINS - CROSS-EXAMINATION BY MR. ENOCH

16

17 RALPH C. SMITH - CROSS-EXAMINATION BY MR. ENOCH

18

BARBARA WYLLIE-PECORA - CROSS-EXAMINATION

19

BY MR. ENOCH AND MS. SCOTT

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Prepared for: By: KATE E. BAUMGARTH, CR No. 50582
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1 their authorized rate of return?

2 A. I don't recall firsthand. And they have been --
3 it may have occurred sometime after 1999.

4 Q. And lastly, you would agree that to the extent
5 that the company issues equity, that would make it more
6 difficult to achieve its authorized return on equity?

7 A. Yes, because there is more equity.

8 MR. MUMAW: Thank you. Five minutes ahead of
9 time.

10 MR. ENOCH: Judge Farmer, may I ask one question?

11 CALJ FARMER: Mr. Enoch.

12

13 RECROSS-EXAMINATION

14

15 Q. (BY MR. ENOCH) The line extension, the debate
16 about who should pay for the line extension, whether it be
17 everyone collectively or the landowner, putting that aside
18 for the moment, would you agree that the cost associated
19 with the line extension, under either one, is identical,
20 correct, the actual cost associated with it?

21 A. If it's --

22 Q. Irrespective of who is ultimately responsible for
23 paying it.

24 A. Yes. Yes. Under the -- in general I would agree
25 with that, yes.

1 Q. And are you aware of anything in the record which
2 would suggest that the way APS calculated that cost is
3 unreasonable?

4 A. I'm not of aware of anything in the record
5 suggesting that.

6 MR. ENOCH: Thank you.

7 CALJ FARMER: Anything further for this witness?

8 Thank you, sir, for your testimony. You may be
9 excused.

10 Let's talk about scheduling here.

11 Ms. Pecora, do you have any updates on the status
12 of your witnesses?

13 MS. WYLLIE-PECORA: One second.

14 Rick Merritt is here. He has been here since
15 10:00. So that is with Elliot Pollack.

16 Our phone call at 1:00.

17 CALJ FARMER: Let me ask this question.

18 The phone call at 1:00 is for your witness
19 Mr. Lawson?

20 MS. WYLLIE-PECORA: Right.

21 CALJ FARMER: Who has questions for Mr. Lawson?

22 MR. CROCKETT: Nothing.

23 CALJ FARMER: Does APS have questions for
24 Mr. Lawson?

25 MR. ROBERTSON: Your Honor, I sat back here not

1 A. Correct.

2 Q. And do you believe that those unintended
3 consequences would have been avoided had the Commission
4 several years ago had before it all of the available
5 facts, and all of the interested parties, and all of the
6 concerns laid out before it made that change?

7 A. Yes.

8 Q. In your correspondence, which is in the docket,
9 dated May 14, 2009 -- I don't know which exhibit it's
10 contained in. I'll just quote a sentence.

11 It says: Third, our preliminary research shows
12 that Arizona Public Service charges the highest rates for
13 new service line extensions to residential units in the
14 nation. And while our research is not extensive and has
15 not covered every state, we ask that APS show evidence
16 that they are at least on par with other utility providers
17 with regard to line extension costs.

18 Do you recall writing that?

19 A. Yes.

20 Q. And you, in fact, did at least some analysis of
21 how other states do it; correct?

22 A. Limited, but yes, some.

23 Q. Did you do any analysis with respect to how other
24 states may allow third-party contractors to come in and do
25 line extensions?

1 A. I really can't -- all I can do is tell you on the
2 surface. Because if I were going to do that, I would
3 spend a lot more time on it. So to answer your question
4 honestly, no.

5 Q. Is there a reason that you or your constituents
6 did not do such an analysis?

7 A. Money.

8 Q. As you sit here today, do you know or have any
9 inclination of what the history has been in those
10 jurisdictions that use third-party contractors with
11 respect to safety and reliability issues?

12 A. I have no clue.

13 Q. Do you have any opinion or any information
14 addressing how well that system has worked in other
15 jurisdictions from the standpoint of developers or
16 landowners?

17 A. Nope.

18 Q. Would you agree with me that that sort of
19 information would be useful to this Commission in
20 developing -- or at least before it would implement such a
21 procedure in this case to have those sorts of background
22 facts?

23 A. Oh, yes. I support you.

24 Q. Do you envision that if a landowner were to be
25 able to hire a third-party contractor to install the line

1 extension -- and let's assume the worst-case scenario and
2 that some fly-by-night outfit comes in and sets up the
3 line. And then, at some future point, an employee of APS
4 is seriously injured or killed as a result of that shoddy
5 work.

6 Given the fact that the third-party contractor is
7 really an agent of the landowner at that point, would you
8 envision that maybe that landowner would actually have
9 some liability associated with the work performed by the
10 third-party contractor which harmed the APS employee?

11 A. Totally depends on how it was set up.

12 Q. Do you have an opinion?

13 A. No.

14 Q. Can you name five contractors or three
15 contractors who, if this were to change today, would be in
16 a position to --

17 A. No.

18 Q. I'm sorry. Let me at least finish the question.

19 Would you be able to name any contractors that
20 would actually be able to come in and bid on this sort of
21 work?

22 A. No.

23 Q. Would you agree with me that when a utility
24 performs the work for the line extension, irrespective of
25 who pays for it, but when the utility performs the work,

1 the utility foreman is charged with ensuring that the work
2 conforms to all governmental and utility codes,
3 ordinances, and standards, and that the inspection is
4 integrated into the construction process?

5 A. I would hope so.

6 Q. On the other hand, would you agree with me that
7 when the Applicant elects to perform the work and a non-
8 utility contractor performs the construction that the
9 utility has no choice but to inspect the work to ensure
10 that the public is protected from unsafe conditions
11 resulting from improperly installed facilities and that
12 ratepayers are protected from the maintenance cost that
13 would flow from defectively installed facilities?

14 A. I got lost on that one.

15 Q. Okay. Let me back up. If a landowner were to
16 hire the wrong third-party contractor, would you agree
17 that -- let's say that this were to happen in this case --
18 that APS in this situation would have no choice but to
19 inspect the work to ensure that the public is protected
20 from unsafe conditions?

21 A. Again, I'm not an expert in this field. I would
22 be happy to sit at the table, but I would hope all of
23 those kinks would get ironed out prior to it being
24 implemented, and that everybody that would be able to do
25 those extensions would be approved and licensed to do it.

1 And yes, APS would come out and inspect it before it was
2 energized.

3 Q. Who would you envision would pay for that
4 inspection?

5 A. Again, I can't tell you unless we sit down and
6 talk about it. I don't know.

7 Q. None of those questions have been answered in
8 this record as far as you know, correct?

9 A. If there was going to be a compromise, that would
10 be something that would be on the table as part of it.

11 Q. There was a letter that was attached as Exhibit 1
12 to one of your filings. It's a letter dated January 11,
13 2009, from a Debra Morrow.

14 A. Correct.

15 Q. Do you know Ms. Morrow?

16 A. I met her a couple of weeks ago.

17 Q. I'm correct she's not going to testify at this
18 hearing, correct?

19 A. She's not.

20 Q. Let me ask you a question about a comment that
21 she makes in her letter. She states that, quote, not only
22 is APS a monopoly so that I cannot go elsewhere, but they
23 demand that you use their workers and supplies with
24 overinflated costs.

25 Do you share Ms. Morrow's opinion that APS has,

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13) HEARING

14 At: Phoenix, Arizona

15 Date: August 21, 2009

16 Filed: August 24, 2009

17

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19 EXCERPT OF REPORTERS' TRANSCRIPT OF PROCEEDINGS
20 CARL R. FAULKNER - CROSS-EXAMINATION BY MR. HASKOVEC

21

(Pages 587 - 598)

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23

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27 Mr. Nicholas Enoch

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1 personal or direct knowledge of APS switching out
2 transformers prematurely?

3 A. Yeah, that is fair to say. I have no idea. But
4 also I have no way of telling whether or not it was
5 necessary.

6 Q. And in your written testimony you go on to say,
7 "There are no competitive material and labor bids. There
8 is no competitive contractor who is allowed to do
9 construction of the facilities."

10 Do you remember that?

11 A. Yes.

12 Q. Now, you work primarily in and near Douglas, is
13 that correct, when it comes to the general contractor
14 work?

15 A. Yes.

16 Q. Would it be fair to say that you wouldn't know
17 whether there are contractors in other areas of APS
18 service territory who have the capacity and capability to
19 perform and who are basically ready, willing and able to
20 perform this work if bids were permitted?

21 A. No, I don't know. I presume so. If there is a
22 job opportunity, somebody will step up.

23 Q. And what are you basing that on?

24 A. Experience.

25 Q. And do you think the same would be true in remote

1 or sparsely-populated areas?

2 A. Sure.

3 Q. You think --

4 A. People need power in Douglas. Despite what APS
5 may feel is needed -- needed for and necessary for them,
6 people need power in Douglas. And the growth potential in
7 Douglas is coming.

8 Q. The question is, though, whether you think there
9 is going to be another contractor who is ready, willing
10 and able to do that elsewhere?

11 A. I can't answer that.

12 Q. Okay. And finally, you in your written testimony
13 mentioned that Sonora Development is licensed in Arizona
14 to perform much of the labor required for the installation
15 of APS facilities?

16 A. Yes.

17 Q. Do you believe that Sonora Development has the
18 capacity and necessary and compatible equipment to do such
19 work?

20 A. Yes.

21 Q. And you would otherwise be ready, willing and
22 able to do it?

23 A. Yes. What we don't have in equipment we can
24 lease for whatever period of time we need. We have
25 operations that can do that.

1 Q. And you mentioned that you can perform much of
2 the labor required.

3 What couldn't you perform?

4 A. We couldn't hook up the transformers or install
5 them or those kinds of things. We would need a general
6 contractor -- or an electrical contractor that is licensed
7 to do that. We could put in -- we can dig the trenches.
8 We can put in the conduit. We can provide service lines,
9 those kind of things.

10 Q. Okay.

11 A. We can set a meter base.

12 Q. And you mentioned that this could be -- that
13 Sonora Development could provide comparable equipment and
14 materials at a significantly lower cost than APS?

15 A. Yes.

16 Q. Isn't it fair to say, though -- you said a moment
17 ago -- you said you are not sure whether you could
18 actually beat APS's price?

19 A. Yeah, I don't know. I don't know what APS is
20 going to charge me for it until I see a competitive bid or
21 another bid on the same material. How can I tell you
22 whether it's competitive or not.

23 Q. All right. So this assertion -- is it fair to
24 say that this assertion that you could do it at a
25 significantly lower cost is just based on conjecture?

1 CROSS-EXAMINATION

2

3 Q. (BY MR. HASAKOVEC) Mr. Froetscher, this is
4 primarily directed to you, although anyone who feels able
5 to address it is certainly welcome to.

6 You indicated before that you have confidence in
7 the APS personnel, including linemen, who install the
8 additional line under Schedule 3 and who perform these
9 services in a safe and reliable manner.

10 Do you recall saying that?

11 A. (BY MR. FROETSCHER) I do.

12 Q. What is it about the personnel who do these line
13 extensions that gives you that level of confidence?

14 A. (BY MR. FROETSCHER) The construction operations
15 and maintenance personnel that APS has have either gone
16 through our four-year apprenticeship program or earned a
17 journeyman ticket or journeyman certification from another
18 utility or through another program.

19 I mentioned this morning that we take a great
20 deal of -- we take our work regarding the maintenance,
21 operation, and construction of the system seriously. And
22 in the 29 years I've been associated with APS, I, (a),
23 believe that to be very true and believe that the
24 workforce takes a great deal of pride in the quality and
25 efficient construction of facilities; and (b) in terms of

1 being responsive, timely, and efficient and effective in
2 the restoration of services from an emergency standpoint.
3 So it has been my experience that as a broad based
4 workforce, in combination with their affiliation with both
5 APS and Local 387, that this is a skilled, highly trained,
6 and proud workforce that performs very good work.

7 Q. And could you just characterize the overall line
8 extension related safety record at APS?

9 A. (BY MR. FROETSCHER) The overall line extension
10 safety record?

11 Q. That's right.

12 A. (BY MR. FROETSCHER) To my recollection, I am not
13 familiar with any fatal or serious injury associated with
14 line extension construction, if that, sir, is what you're
15 referencing --

16 Q. That is.

17 A. (BY MR. FROETSCHER) -- in my time within a
18 leadership capacity at APS.

19 MR. HASAKOVEC: Thank you, Your Honor.

20 CALJ FARMER: Mr. Robertson.

21 MR. ROBERTSON: Thank you, Your Honor.

22

23 CROSS-EXAMINATION

24

25 Q. (BY MR. ROBERTSON) Good afternoon, gentlemen of

1 a lineman journeyman or an electrical journeyman
2 certificate, that you can identify that would be other
3 certificates or qualifications that APS would look for in
4 order to determine that such personnel would be
5 appropriately qualified?

6 A. (BY MR. FROETSCHER) Not my area of expertise at
7 a granular level. Certainly certificated as a journeyman
8 lineman. Would need to be some discussion about what work
9 rules said contractors would work under. APS has an
10 accident prevention manual that incorporates things like
11 switching orders and clearances. When we get into this
12 work activity with third-party contractors, it just needs
13 to be recognized that these folks are working potentially
14 on a live system. And so in terms of the processes, the
15 policies, the procedures, those kinds of things, those
16 parameters would need to be fleshed out.

17 Q. And those are all what you would characterize as
18 among the safety issues that you identified and were a
19 benefit of going through in-house personnel to perform --
20 APS personnel who would already be familiar with these
21 protocols and what not?

22 A. (BY MR. FROETSCHER) That's correct. But an
23 electrical distribution system is not an area where you
24 want to be surprised as you go about doing your work. So
25 again, those are the safety issues that a framework needs

1 to be established.

2 Q. I see. And I think I understood you correctly at
3 one point, and you can correct me if I'm wrong, but you
4 indicated that APS has worked with approximately four to
5 five groups of subcontractors for this sort of work in the
6 past?

7 A. (BY MR. FROETSCHER) We employ the use of
8 subcontractors on our system working, yes, under our
9 direction. So the answer to that is yes.

10 Q. Okay. Just for my understanding, you weren't
11 suggesting that the pool of personnel who would be
12 appropriately qualified to perform the work is limited
13 just to these personnel that have worked with APS in the
14 past?

15 A. (BY MR. FROETSCHER) I'm not suggesting that,
16 per se. I am suggesting that the qualifying or approval
17 process of third-party contractors to do work on the
18 system either for APS, but more germane to this
19 discussion, for customers, follow the process or a similar
20 process to what the company employs today in terms of
21 prequalifying and preapproving contractors who do work on
22 our behalf.

23 Q. Great. Another topic that you discussed in your
24 testimony and your discussion with Mr. Grant earlier, you
25 talked about the issue of service issues with respect to

1 Q. Okay. I just had one more question for you
2 relating to the schedule of charges that you submitted,
3 just a very general question.

4 Before the elimination of the free footage
5 allowance, for the labor that you used to construct these
6 line extensions, you used a combination of in-house
7 personnel as well as third-party contractors, or a
8 combination, correct? Is that what I understood before?

9 A. (BY MR. RUMOLO) Would you repeat the question
10 again, please? I'm sorry.

11 Q. Sure. Before elimination of the free footage
12 allowance when APS would go out and construct a line
13 extension, you didn't just rely upon in-house personnel,
14 but you used third-party contractors, or a combination,
15 correct?

16 A. (BY MR. RUMOLO) I'll defer that question to
17 Mr. Froetscher.

18 Q. Okay.

19 A. (BY MR. FROETSCHER) The majority of our new
20 customer line construction is constructed by in-house APS
21 crews. We do employ and use contractor crews. To be
22 candid, we focus most of their work on what we would call
23 asset management or distribution infrastructure upgrade
24 projects and not customer-driven projects.

25 Q. Okay. Then under the current policy for the

1 in-house labor, is that recovered through rates elsewhere,
2 or is it through the customer payment for the line
3 extension? I think Staff was a little confused on that.

4 A. (BY MR. RUMOLO) Currently, when an extension is
5 requested by a customer, distribution engineers use a
6 tool -- a software tool that I'm not sure the correct name
7 of it, but we call it EMAN -- to estimate the cost of the
8 extension. That extension cost is based on our current
9 materials costs and our labor to install those materials,
10 and that's the basis for the charge to customers. And
11 basically, using that EMAN tool is how we came up with the
12 statement of charges that's found in my testimony.

13 Q. Okay. Does that mean that labor isn't counted,
14 then, as part of the line extension rates?

15 A. (BY MR. RUMOLO) No. Labor is included, because
16 it's the labor to install that. We don't distinguish
17 whether the actual work was done by a contractor or
18 in-house people. But it's the labor, typical labor to
19 install a pad-mounted transformer or a pole, or whatever
20 the particular piece of hardware is.

21 Q. Okay. There were two Commissioner questions
22 yesterday that were not answered. And I believe that
23 Staff may be going to address these, but I think you're
24 the appropriate witness for these questions as well.

25 One of the questions was whether it was felt that

1 the treatment of Schedule 3 as revenues would encourage
2 gold plating at all, or gold bricking. Do you recall that
3 question?

4 A. (BY MR. RUMOLO) I think it was gold plating.

5 Q. Gold plating. That's what I thought. Do you
6 have an opinion on that?

7 A. (BY MR. RUMOLO) I'll defer to Mr. Froetscher on
8 that one.

9 A. (BY MR. FROETSCHER) That's very kind of you.
10 I'm sure -- while I wasn't here yesterday,
11 Counselor, I'm confident that the term was gold plating.
12 And let me try to address that, because I don't think that
13 concept has really surfaced in these discussions.

14 When the company prices the cost to serve a
15 customer for a new line extension, there are times when,
16 consistent with the work to serve that customer, there
17 might be other work that it makes sense to do from an
18 infrastructure standpoint for system reliability or other
19 things.

20 APS customer service representatives, in working
21 with our new customer construction clients, price out the
22 work to be done on what we call a minimum cost to serve.
23 In other words, if we choose to put in an additional
24 switching cabinet in order to give an underground system
25 certain flexibility or redundancy, or to plan for the

1 future as part of a customer construction project, the
2 customer is not charged for that extra equipment. We
3 write that off the work order as what is called system
4 planning.

5 So what I'm trying to convey to you is this.
6 When customers are seeking new service, we price the
7 facilities needed to serve them as the minimum cost to
8 serve. In other words, the bare minimum set of facilities
9 that are needed in order to provide them service of
10 sufficient voltage and capacity.

11 And if there are additional pad-mounted equipment
12 or other material or equipment installed as part of that
13 job that will benefit the system as a whole, the customer
14 is not charged. The company characterizes that as what is
15 called system planning and separates those costs out.

16 Q. Thank you.

17 A. (BY MR. FROETSCHER) You're welcome.

18 Q. The other question had to be with -- I believe it
19 was asked by Commissioner Newman, and he wanted parties,
20 Staff, or the company, or any of the intervenors, to give
21 a brief history of how line extensions have been dealt
22 with in Arizona in the past.

23 And I believe it's in the testimony already, at
24 least I think it is. Do you have a reference point,
25 Mr. Rumolo, where someone could go at this point in the

1 The other states, when we're doing this checking,
2 which I think is definitely a great approach, looking at
3 all of these other states, there are some -- am I correct
4 in saying that they do do subcontracting out and the
5 people are able to do it?

6 A. (BY MR. GULDNER) That's our understanding. We
7 did some -- again, after doing some of the preliminary
8 research, did some more in-depth research on that specific
9 question and have identified probably eight or so states
10 that have -- or utilities that have some form of
11 subcontracting.

12 I think we knew about the PG&E. PG&E has a
13 tariff. I think all of the California utilities have a
14 tariff that provides for outsourcing or competitive
15 bidding for design and construction. We found a service
16 schedule from Public Service of New Mexico that appears to
17 have that, and I think we found one for Nevada Power that
18 appears to have that.

19 And one of the differences is they range.
20 There's some that simply reference it, and then there's
21 some that have a fair amount of detail around the
22 provisions for how it works.

23 And so we're still doing the research on it, but
24 we think that those other states' tariffs would be useful
25 to look at in terms of how they're outlining the

1 requirements for, as Mr. Froetscher testified earlier, to
2 ensure that the materials that are used are compatible, to
3 ensure that the workers are qualified, to ensure how the
4 process works, to ensure that the company can inspect it,
5 those types of things.

6 Q. Okay. And I don't know if you know this. How
7 many subsidies are on the bill? Like I know they have it
8 for the poor, and they have it for energy, and there's
9 some other things.

10 A. (BY MR. GULDNER) Let me respond. The question
11 of subsidies is a policy -- it's a complicated, complex
12 policy question that arises in essentially every utility
13 rate case. And it's perhaps a little more complex than
14 you might think.

15 Because you can look at a social policy objective
16 of holding low income customers harmless because they're
17 vulnerable to things like rate increases, and there's a
18 social value in doing that. You then have to look about
19 how you spread that subsidy across your existing
20 customers. And so do you spread that just across the
21 residential class because low income customers are a
22 subset of the residential class, or do you spread that
23 across commercial and industrial customers as well?

24 And that's an example for that specific issue,
25 but I think if you talk to Mr. Crockett's clients, there's

1 A. (BY MR. FROETSCHER) The customer service
2 representative who was working with Ms. Clute at the time,
3 quite honestly, Chairman, I don't think recognized that in
4 all likelihood we would be changing that pole out at some
5 point in the next couple of years because of it's age and
6 condition, and, therefore, did not give consideration that
7 that cost, in fairness terms, should not be passed along
8 to Ms. Clute.

9 Q. And so it got changed after she complained?

10 A. (BY MR. FROETSCHER) Not to the Commission, nor
11 to me. She objected to the initial cost estimate. And to
12 the customer service representative's credit, she came
13 back, spoke with her leader, took her leader out to the
14 field, the two of them met with Ms. Clute, and the leader
15 made the decision that the cost of changing out the pole
16 was not a cost that should fairly be attributed to
17 Mrs. Clute.

18 Q. And how can the Commission be assured that that's
19 not happening all over the place?

20 A. (BY MR. FROETSCHER) Clearly, Madam Chair, I
21 can't blanketly tell that that's not happening. We get
22 pushback, as well we should, on some quotes to customers.
23 I have a high level of confidence that our people
24 understand the policy, apply it equitably. That the
25 minimum cost to serve that I described earlier is a well-

1 understood concept and that system planning costs or
2 system improvements costs are not passed on to customers.

3 There are times that it's going to take a second
4 set of eyes, and in this particular case that's what
5 transpired.

6 Q. You know, I think maybe you guys need to think
7 about it, and I think the Commission -- you know, I think
8 all of the Commissioners have a lot of questions about
9 this, and I'm not really satisfied with that answer,
10 Mr. Froetscher. I know -- I mean, I appreciate, you know,
11 you giving it your all, but I'm not really satisfied with
12 that. I don't see a uniform system here. It sounds a
13 little squishy to me, like maybe people are getting
14 different quotes based on different --

15 You know, so Mr. Guldner, do you know, is there
16 any way you can --

17 A. (BY MR. GULDNER) Chairman Mayes, one of the
18 modifications that I think would help at least on some of
19 these issues are the proposed changes in the settlement to
20 move to a statement of charges and more itemization so
21 that you can, to some extent, do more standardization on
22 the extensions.

23 So, for example, if we moved to a footage, you
24 know, cost per foot for facilities, and an individual may
25 be higher or lower than the actual cost, but what they're

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2

3 IN THE MATTER OF THE)
4 APPLICATION OF ARIZONA) DOCKET NO.
5 PUBLIC SERVICE COMPANY FOR A) E-01345A-08-0172
6 HEARING TO DETERMINE THE)
7 FAIR VALUE OF THE UTILITY) PERMANENT
8 PROPERTY OF THE COMPANY FOR)
9 RATEMAKING PURPOSES, TO FIX A)
10 JUST AND REASONABLE RATE OF)
11 RETURN THEREON, TO APPROVE)
12 RATE SCHEDULES DESIGNED TO)
13 DEVELOP SUCH RETURN.) EVIDENTIARY
14) HEARING

10

11 At: Phoenix, Arizona

12 Date: August 28, 2009

13 Filed: August 31, 2009

14

15 EXCERPT OF REPORTERS' TRANSCRIPT OF PROCEEDINGS

16

17 TESTIMONY OF SAMUEL ELLIOTT HOOVER

17

18 (Pages 1365 - 1382)

19

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(When in red)

1 Q. And do you adopt your previously filed testimony?

2 A. Yes.

3 Q. Okay. Could you please briefly summarize your
4 testimony.

5 A. I, myself, as president of the Local 387 and its
6 2,000 members support the APS rate increase.

7 Q. And I take it the settlement agreement as well?

8 A. Yes, sir.

9 MR. HASAKOVEC: Your Honor, I move at this time
10 for admission of IBEW-1, 2, 3.

11 CALJ FARMER: All of those exhibits were prefiled
12 and no objections were received, so IBEW-1, 2, and 3 are
13 admitted.

14 (Exhibits IBEW-1, IBEW-2, and IBEW-3 were
15 admitted into evidence.)

16 MR. HASAKOVEC: Thank you, Your Honor.

17 Q. (BY MR. HASAKOVEC) Mr. Hoover, would you
18 characterize and briefly discuss the current state of IBEW
19 Local 387's relationship with APS?

20 A. We have a very good relationship with Arizona
21 Public Service company and a very unique relationship with
22 the company.

23 Q. Okay. What do you mean by that?

24 A. That we are continuously working together to
25 drive down costs and improve efficiencies, work methods

1 and practices throughout the bargaining unit.

2 Q. Mr. Hoover, what is your vision of where APS will
3 be in 25 to 50 years, and what role do you see the
4 unionized workforce having at that time?

5 A. I think that Arizona and Arizona Public Service
6 Company, along with this Commission, is going to be a
7 pioneer in developing new renewable technologies and also
8 a workforce, a workforce that is going to be required
9 to -- a core group to maintain the current system that we
10 currently have in place, and then also with new
11 technologies and renewables, we'll have to have a much
12 more educated, skilled, compensated workforce to meet
13 those needs whether we construct it, and also maintain it.

14 Q. Throughout these proceedings and the ones that
15 have preceded them, some constituencies have questioned
16 the overall efficiency of APS's operations, and in
17 particular its workforce. Can you provide the Commission
18 with your view on this topic?

19 A. Yes. Both company and union have continuously
20 worked towards improving our efficiencies, reducing the
21 amount of our crews, and not fill in jobs in these tough
22 economic times. We also have committees and groups that
23 collectively work together to improve our efficiencies.
24 And also, once we improve those efficiencies, then we
25 quickly implement them to inevitably reduce cost.

1 Q. Okay. Let's talk specifically for a second about
2 the number of employees at any given work site. Just
3 generally speaking, could you discuss that point?

4 A. Yes. When we're given orders to go out to do a
5 particular job, sometimes it's one job during the day, and
6 sometimes it's multiple jobs during the day. We are sent
7 out with appropriate manpower and equipment to go do the
8 various jobs throughout the day. It doesn't make sense
9 for us not to send that out when we go out to do these
10 jobs and then ferry people back and forth and drive up
11 fuel costs and wear and tear on vehicles and also on
12 manpower. So in the morning when our work orders are sent
13 out, we go out there with appropriate manpower and
14 equipment to meet the customers' needs.

15 Q. When you testified before this Commission on
16 December 17, 2008, you explained how APS had downsized its
17 workforce through severance packages. Do you remember
18 that?

19 A. Yes.

20 Q. While jointly agreed severance packages may still
21 be the preferred way to reduce a workforce as opposed to a
22 layoff of junior employees, please explain to the
23 Commission what happens when your most experienced workers
24 leave the company en masse?

25 A. If we lose too many experienced workers en masse,

1 it takes a long time to develop a person's knowledge and
2 skill set in the trade that we're trained. Then you start
3 dipping into your most junior people that the company's
4 investment is in those people's future to run this
5 company.

6 Once they complete their apprenticeship program,
7 they are then out in the field working in their skilled
8 trade positions, and it takes many years to learn the
9 techniques and the system out there in order to be a
10 proficient worker out there.

11 Q. And would you say it's fair to say that it takes
12 them time in order to learn the skills and to gain enough
13 experience to lead a crew?

14 A. Absolutely.

15 Q. I believe you mentioned that by trade you're a
16 journeyman lineman; is that right?

17 A. Yes.

18 Q. And you have worked during your career on high
19 voltage electricity. Is that fair to say?

20 A. Yes, sir.

21 Q. How about line extensions in particular?

22 A. Yes, sir.

23 Q. Okay. Have you done a significant amount of work
24 on line extensions?

25 A. Yes, sir.

1 Q. Would it be fair to say that you have worked on
2 hundreds of line extension projects?

3 A. That would be correct.

4 Q. Which aspects of such projects have you worked
5 on?

6 A. Worked from them all, from the customer to the
7 retail customer, into all aspects of the line extension.
8 So from A to Z, I have worked on them all.

9 Q. And specifically which aspects of the
10 installation have you done yourself?

11 A. All of them.

12 Q. Okay. What does it mean to be a journeyman in
13 terms of training and experience?

14 A. A journeyman is, is that we have to serve a
15 four-year apprenticeship, 8,000 hours' worth of on-the-job
16 training. So that means that along with a constituted
17 line crew that we have apprentices, based off their
18 various progression steps in their apprenticeship, working
19 with the crews, getting the proper techniques, knowledge,
20 skills, safety, along with the line crew. So they have to
21 work 8,000 hours of on-the-job training.

22 Q. And that's just to qualify. That's a minimum
23 threshold to become a journeyman, correct?

24 A. Correct.

25 Q. Is it fair to say that many journeymen out there

1 in the field have far greater experience than that?

2 A. Yes.

3 Q. Given your experience in dealing with such crews
4 that do line extension work, would it be fair to say
5 that -- could you here today express that you have
6 confidence in such crews?

7 A. Absolutely, especially when it comes to the
8 safety and reliability of that. Also, it's very critical
9 in our rural areas where -- Arizona Public Service
10 services the whole state of Arizona. We have designated
11 docks throughout the whole state. Those set crews, there
12 may be two crews, depending on the size of the community,
13 or there may be six crews. They do all of that. They
14 build, maintain, construct line extensions.

15 And it just makes sense to keep those crews
16 within those communities that they reside and live, rather
17 than have a central headquarters here in Phoenix and we
18 have to ferry equipment and men into those areas. Because
19 now it's costing revenue, plus it's taking a lot longer to
20 restore power to our customers, which is critical.

21 Q. Okay. And so it's fair to say that APS has yards
22 throughout the state for this purpose; is that right?

23 A. Yes, sir.

24 Q. How does the union feel about the possibility of
25 customers being able to use third-party contractors for

1 the construction of line extensions?

2 A. We preferably do it ourselves due to, like I
3 mentioned just before, the safety and reliability.

4 Q. Do you feel that the journeyman status for many
5 people in these crews is a useful feature of what APS's
6 employees can offer for such construction projects?

7 A. Absolutely. When APS sends a crew out there,
8 we're skilled, knowledgeable, and trained to build the
9 whole system. So you have knowledgeable, experienced
10 people out there building it from Point A to Point B, and
11 then energizing that system that now we have to maintain.

12 Q. And is it fair to say that any given crew has a
13 significant amount of experience doing precisely this,
14 repeatedly?

15 A. Yes.

16 Q. Could you just briefly comment on the safety
17 record for such crews constructing line extensions.

18 A. Best of my knowledge, impeccable safety record.

19 Q. Would you agree with the notion that when APS
20 performs the work, the utility foreman is charged with
21 ensuring that the work conforms to all governmental and
22 utility codes, ordinances, and standards, and inspection
23 is integrated into the construction process?

24 A. Yes, because we're all trained to meet the specs
25 and standards of the company. So yes.

1 Q. And also, I take it, in addition to the specs of
2 the company, just generally the ordinances and code that
3 might apply to that?

4 A. Correct.

5 Q. If applicants for line extensions were to elect
6 to have the work performed elsewhere, so that is a
7 third-party contractor performed the work, the utility
8 really would have no choice but to inspect the work to
9 ensure the public is protected from unsafe conditions that
10 could result from improperly installed facilities; isn't
11 that right?

12 A. Yes, sir.

13 Q. And APS would also want to ensure that ratepayers
14 are protected from the maintenance costs that would flow
15 from defectively installed facilities, right?

16 A. Yes, sir.

17 Q. If third-party contractors were to be allowed as
18 an option here for all customers, how would the inspection
19 process work?

20 A. The company would have to hire more inspectors, I
21 would imagine, to go out there and inspect this work.
22 It's not feasible for a company to hire one inspector to
23 go out and manage that one project. They've got multiple
24 job inspections that they have to go do. So that's an
25 additional cost.

1 When you have our crews doing it, you're sending
2 a three-man crew out there to build, construct the whole
3 thing. We're the inspector, we're the constructor, and
4 then we are also the maintainer of that system.

5 Q. Mr. Hoover, please explain to the Commission who
6 are the people who actually construct these line
7 extensions.

8 A. Local 387 members that are skilled, qualified,
9 competent and safe workers.

10 Q. Okay. Specifically, when it comes to line
11 extension work, where are they physically located?

12 A. If it's here in the Phoenix area, we've got docks
13 scattered throughout the Phoenix area. So the company
14 would send the closest crew or crews off that dock to
15 perform those line extensions.

16 Q. And if it's outside of Phoenix?

17 A. If it's outside Phoenix, it depends. In the
18 smaller communities, those set crews on that dock would go
19 do those.

20 Q. Are there crews that are wholly dedicated to
21 constructing line extensions?

22 A. No. Our crews do line extensions, we also do
23 maintenance, we also do storm restoration, and anything
24 else that is presented under our classification. As a
25 journeyman, you're skilled and trained in a very diverse

1 CROSS-EXAMINATION

2

3 Q. (BY MS. WYLLIE-PECORA) Hi, Mr. Hoover.

4 A. How are you doing?

5 Q. Just two questions. Would the Union like to see
6 more line extension orders to keep their members employed?

7 A. Right now we are at reduced staffing levels due
8 to the severe economic downturn. We have not filled a lot
9 of our positions to do our cost-cutting. So obviously,
10 when the growth comes back, then we would be looking to --
11 if we can't currently maintain those line extensions, then
12 we would either be looking at bidding and creating more
13 jobs within the company.

14 Q. Okay. And have there been or are there other
15 companies that can do the construction for APS to APS's
16 standards?

17 A. Yes. We have a list of bona fide contractors
18 that the company has approved that will do this.

19 Q. And that is available to anyone who wants to
20 apply for that?

21 A. To the best of my knowledge, correct.

22 MS. WYLLIE-PECORA: Okay. Thank you.

23 THE WITNESS: You're welcome.

24 CALJ FARMER: Okay. I have a few questions, sir.

25 These I'm going to read on behalf of Chair Mayes who is